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Annual Report

of

STRAWBRIDGE & CLOTHIER

PHILADELPHIA, PA.

FOR THE FISCAL YEAR ENDED
JANUARY, 31, 1936

BOARD OF DIRECTORS

MORRIS L. CLOTHIER, *Chairman*

HERBERT J. TILY
ISAAC H. CLOTHIER, JR.
ROBERT E. STRAWBRIDGE
FREDERIC H. STRAWBRIDGE
FRANCIS R. STRAWBRIDGE
HOWARD COOPER JOHNSON
JOHN JACKSON
GEORGE K. BARTLE

OFFICERS

MORRIS L. CLOTHIER, Chairman of the Board
HERBERT J. TILY, President
ISAAC H. CLOTHIER, JR., Vice-President
ROBERT E. STRAWBRIDGE, Vice-President
HOWARD COOPER JOHNSON, Vice-President and Treasurer
JOHN JACKSON, Secretary
L. G. ANDREWS, Assistant Secretary and Assistant Treasurer

To the Stockholders of Strawbridge & Clothier:

In compliance with the request of your Board of Directors, I report the progress made by your company during the fiscal year ended January 31, 1936. A balance sheet and summary of operations certified by your auditors, Messrs. Ernst & Ernst, is submitted herewith.

The net profit for the year is $428,766.02, compared with $328,352.00 for the previous year.

One of the most significant achievements of the past year has been our merchandising turnover, which reached the highest peak in the store's history. This decrease in volume of stock in relation to sales gave us at all times a fresher, more-up-to-date stock and resulted also in giving our customers greater advantages in values and in prices. At the same time it enabled the management to maintain a slightly larger gross profit ratio.

Your Board of Directors decided to change from the deferred income basis to the accrual basis of accounting for installment and lease sales. This change was adopted as of February 1, 1935, and the past year's operations are, therefore, reported on the straight sales income basis.

Our experience of many years fully warrants this change, as our loss from this class of credit sale is in normal ratio to our other accounts.

The deferred income item in our balance sheet at January 31, 1935, has been transferred to constitute a reserve for contingencies. This conservative action is justified, in view of the uncertainties still extant in credits, taxes and our sundry investment items.

The balance sheet shows current assets approximately two and one-half times current liabilities.

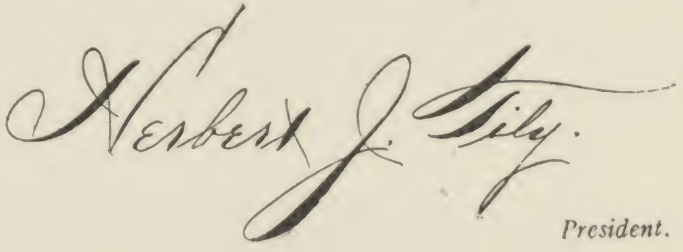
All covenants of the Funded Debt and Prior Preference stock have been met to date.

The Ardmore and Jenkintown Stores again show satisfactory progress, and each has contributed to our earnings for the year.

Substantial increases in taxes continue to be a great deterrent to the profitable operation of business. Our Federal and State income taxes were double that of the preceding year, and for the current year we face still further increases because of the Social Security tax and other levies likely to be imposed by the Congress now in session.

Our organization is efficiently co-ordinated, and the management acknowledges with gratitude the splendid support and co-operation of the personnel.

Respectfully submitted for the Board of Directors,



President.

ERNST & ERNST
ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE
PHILADELPHIA
FIDELITY PHILADELPHIA TRUST BLDG

STRAWBRIDGE & CLOTHIER,
Philadelphia, Pa.

March 20, 1936.

We have made an examination of the balance sheet of STRAWBRIDGE & CLOTHIER, PHILADELPHIA, PA., as at January 31, 1936, and of the statement of income and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the company and other supporting evidence and obtained information and explanations from officers and employees of the company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

Merchandise inventories are based on actual departmental counts of stock made by employees of the company at various dates prior to the close of the fiscal year and priced at retail, less a percentage representing mark-up to reduce sales price to approximately cost or market value. All inventories as taken were reconciled to January 31, 1936, through standard retail inventory records maintained. Our examination of the inventories was limited to tests of the method of pricing and the mathematical accuracy.

The depreciated value of land and buildings is the sound reproductive value as appraised by Day and Zimmermann, Inc., at April 30, 1928, adjusted for subsequent property changes, including additions at cost, less provision for subsequent depreciation. Fixtures and equipment are stated at cost, less provision for depreciation.

Liability for Federal and State taxes is estimated in the attached balance sheet and is subject to final determination.

Sinking fund provisions of the First Mortgage 5% Bonds, Prior Preference 6% Cumulative Stock and Preferred 7% Cumulative Stock have been complied with.

Dividends on Preferred 6% Cumulative Stock have been paid to November 30, 1935, and on Preferred 7% Cumulative Stock to December 31, 1931.

The company discontinued its practice of deferring income on installment sales, and the deferred income in the balance sheet at January 31, 1935, has been transferred to a reserve for contingencies.

In our opinion, based upon our examination, the accompanying balance sheet and related statements of income and surplus fairly present the financial position of the company at January 31, 1936, and the results of operations for the year ended at that date. Further, it is our opinion that the statements have been prepared in accordance with accepted accounting principles and, except for the change in the method of accounting for income on installment sales, on a basis consistent with the preceding year.

ERNST & ERNST

INCOME AND SURPLUS ACCOUNT

STRAWBRIDGE & CLOTHIER, PHILADELPHIA, PA.

For the fiscal year ended January 31, 1936

Profit before deducting interest, depreciation and provision for federal and state income taxes		$1,604,254.80
DEDUCT: Interest	$645,361.90	
Depreciation	460,126.88	
		1,105,488.78
NET PROFIT BEFORE INCOME TAXES		$498,766.02
Provision for federal and state income taxes—Estimated		70,000.00
NET PROFIT FOR THE YEAR		$428,766.02
Surplus—January 31, 1935	$4,959,302.82	
Surplus credit		
Discount on prior preference stock and preferred stock acquired	72,185.75	
	$5,031,488.57	
Surplus charges:		
Cash dividends—Prior preference stock	$110,157.00	
Amortization of appreciation of building values	35,995.71	
	146,152.71	
		4,885,335.86
SURPLUS—JANUARY 31, 1936		$5,314,101.88
Earned surplus	$1,505,721.71	
Capital and appreciation surplus	3,808,380.17	
		$5,314,101.88

BALANCE

STRAWBRIDGE & CLOTHIER,

January

ASSETS

CURRENT

Cash	$828,210.17	
Accounts receivable—Customers (After allowance of $235,000 for doubtful)	4,059,753.27	
Merchandise inventories	3,338,686.14	
		$8,226,649.58

OTHER ASSETS

Miscellaneous investments (At cost)	$256,168.48	
Sundry notes, accounts receivable and deposits	125,174.25	
	$381,342.73	
LESS: Allowance for decline and doubtful	75,000.00	
		306,342.73

SUBSIDIARY AND AFFILIATED COMPANIES

Capital stock and advances—At cost—WFI Broadcasting Company (100% owned subsidiary--inactive) and WFIL Broadcasting Company (50% owned through direct and subsidiary company investments)	55,807.11

PROPERTY, FIXTURES AND EQUIPMENT

Operating—Land, buildings and equipment (After allowance of $3,170,221.57 for depreciation)	$22,356,860.56	
Non-operating—Land and buildings (After allowance of $254,348.75 for depreciation)	1,324,616.18	
		23,681,476.74

DEFERRED CHARGES

Unamortized bond discount and expense	$229,005.10	
Supply inventories and prepaid expenses	185,029.08	
		414,034.18
		$32,684,310.34

SHEET

PHILADELPHIA, PA.

31, 1936

LIABILITIES

CURRENT		
Notes payable to banks	$2,000,000.00	
Accounts payable—Trade	743,758.43	
Accrued accounts	513,572.00	
Employees and sundry deposits	26,937.66	
Reserve for federal and state income taxes	70,000.00	
		$3,354,268.09
MORTGAGE PAYABLE		
First mortgage on branch store—Maturing July 20, 1937		500,000.00
FUNDED DEBT		
First Mortgage 5% Sinking Fund Bonds—1948—Outstanding after deduction of $117,000 in treasury (1936 sinking fund requirement $300,000)		10,191,000.00
RESERVE		
For self-insurance and contingencies		337,893.14
CAPITAL STOCK		
Prior Preference 6% Cumulative (Par value $100)		
Authorized, 148,800 shares; outstanding, 17,210 shares after deducting 1590 shares in treasury	$1,721,000.00	
Preferred 7% Cumulative (Par value $100)		
Authorized, 96,000 shares; outstanding, 94,642 shares after deducting 1358 shares in treasury	9,464,200.00	
Common (No par value)		
Authorized, 300,000 shares; outstanding, 30,000 shares	1,801,847.23	
	$12,987,047.23	
SURPLUS (Including $294,800 applied to repurchase of capital stock in treasury)		
Earned	$1,505,721.71	
Capital and appreciation	3,808,380.17	
	5,314,101.88	
		18,301,149.11
		$32,684,310.34